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The Royal Bank



THE FIRST HUNDRED YEARS.

THE ROYAL BANK OF CANADA

THE FIRST
HUNDRED YEARS.



EIGHTEEN SIXTY NINE–NINETEEN SIXTY NINE

One hundred years ago,
what is now The Royal Bank of Canada
commenced business
as a federally-chartered bank.
On October 18, 1869,
the shareholders gathered for
their first general meeting,
to elect directors and to launch
the Bank as a national institution.
This account of our first century
is offered to mark the occasion of
our 100th birthday,
in the hope that it will be of interest
to our shareholders
and friends of October 1969.



We are a proud bank this year, not lost in worship of our past
but reading about it in pride of our accomplishment
and drawing from it inspiration for our future.
Looked at from any viewpoint,
the first century of the Royal Bank is impressive.
As a business, we have prospered through the intelligence,
initiative, courage and support of many men and women —
our shareholders and our staff.
As a public service institution we have served efficiently
and faithfully all of Canada.
As a Canadian corporation with broad views
and pioneering enterprise we have contributed
to the industrial development of our country
and to Canadian business expansion abroad.
Our 35,000 shareholders represent every sector of our country
and every division of our society,
while those who live in other countries
testify to our worldwide business activity and our international status.
Reading this brief survey reveals how the Royal Bank participated,
as either leader or supporter,
in every forward step taken by Canada toward commercial prosperity,
social advancement, and national well-being.
We dedicate our second century to continuing and expanding that service.

W. D. Mac Laughlin

Chairman & President



From the Beginning
A Friendly Bank

The Royal Bank is celebrating its Centenary this year. It was born under an Act of Parliament dated June 22, 1869, and commenced business as "The Merchants Bank of Halifax" on October 18 of that year. It has had a remarkable history of development and of service to Canada. It is today pre-eminent in the banking field. It is setting itself to better its record in its second century.

Sometimes a centenary celebration consists of fond recallings of the past and hopeful prayers for the future. This is not the occasion for writing a hearts and flowers romance. But neither could the story be composed by a computer, because the history of the Royal Bank is full of drama and hazard and achievement.

Imagination and courage carried the bank into new ventures in every decade since the first directors were elected in 1869. These ten-year periods in the life of the bank do not always fit in neatly with the ten-year periods of environ-

mental history, but the history of Canada is an essential setting. The bank not only lived in it, but helped to make it.

When Canada spread westward, the bank was in the van, pressing into new areas of exploration and settlement. When Canada extended her arms so as to encompass other lands, the bank looked up those places on the map, and moved in. When new industries were promoted, the bank found ways of financing them, and at the same time it supported the primary industries upon which Canada was built: agriculture, forestry, mining and the fisheries.

It came naturally to the bank to maintain intimate interest in its customers, so that from its earliest days it was known as "the friendly bank" — a reputation it still enjoys through the personality of its staff.

In a great city or a tiny settlement, every branch of the Royal Bank is looked upon by the people it serves as something personal to them. It provides local service according to people's needs. It is a unit in a nation-wide banking institution, making available knowledge, experience and resources that extend far beyond local horizons. It links, through its head office, the community with all the rest of the world.

The executives of the bank through all its decades have been people who disbelieved in a slow tempo. If ever there seemed to be a time when the bank was in the doldrums it revealed itself as a period when the Royal was gathering itself together for another big plunge forward. This is evidenced by the overall record: known first as the "Bank of the Seven Merchants", with a single branch and assets of $729,000, it has grown into the Royal Bank of Canada with over 1,200 branches and assets of more than $9 billion; it is the eighth largest bank in the free world in the amount of deposits.

In the beginning

The five year gestation period starting in 1864 with the formation of The Merchants Bank co-partnership was an exciting time. Civil war in the United States was at its height, and the North offered an eager market for produce while blockade-runners from the Southern Confederacy swarmed in the port of Halifax, giving the home city of the bank its first great burst of prosperity. Britain's support of the South had raised hostility in the North, and there were rumblings of annexation. The provinces and colonies began to realize their interdependence, and in 1867 they were united as the Dominion of Canada.

On Monday, May 2, 1864, the new Bedford Row banking-house opened its door, according to an advertisement in the newspapers, "to discount promissory notes and acceptances, make advances on approved securities, purchase and sell bills of exchange, receive money on deposit, and transact all other business matters connected with a business establishment". At the same time it was announced that banking hours — unchanged until only recently — would be from 10 to 3.

The years that passed before incorporation of the Merchants Bank of Halifax were years full of constructive schemes and some frightening events. In 1866 there were the Fenian raids, creating havoc along the southern boundary; in 1867 came Confederation which saw the Union of Nova Scotia, New Brunswick, and the Province of Canada (divided into Ontario and Quebec). Alexander Muir wrote "The Maple Leaf Forever". Muir spent $30 to get 1,000 copies of his patriotic song printed, and sold only $4 worth before a publisher pirated it, copyrighted it, and pushed it on the market.

During that stirring five years the co-partnership averaged earnings of nine per cent per annum.

A decade of progress (1869-1878)

Confederation of Canada meant a change in the form of bank organization, because the new Parliament of Canada took exclusive jurisdiction in all matters pertaining to banking. The Charter of Incorporation of the Merchants Bank of Halifax, dated June 22, 1869, announced authorized capital of $1 million.

That was the year when the first negotiations for entry of Newfoundland into Confederation failed; when the Hudson's Bay Company's territorial rights in the Northwest were surrendered to the Crown; when the Red River Rebellion broke out under Riel. It was also the year when Alberta Indians blamed the disappearance of buffalo from their hunting grounds on removal of their 386-pound meteorite to a Toronto museum, and the year of Canada's last public execution.

Business increased rapidly, and a satisfactory report was given the shareholders in February 1870. The meeting was held, appropriately enough, in the Y.M.C.A., since this was a young bank, imbued with youthful enthusiasm.

Their forward look prompted the directors to spread out from Halifax to open a branch in Pictou, a port which was the terminal point for shipments of coal from New Glasgow.

In 1871 the bank followed its star into Antigonish, Bridgewater, Lunenburg, Truro and Weymouth, and into Sydney in 1872. Not a single dollar had been lost by bad debts, a dividend of eight per cent was declared, and $40,000 was added to the reserve.

Meanwhile, Manitoba was created a province and British Columbia had entered Confederation; the Red River Rebellion ended; the first Census showed a population of 3,689,257; and Canada undertook to build a transcontinental railway. The Government, hard-pressed by the shortage of silver coins, issued 25-cent notes, the "shin-plasters" which are now collectors' items.

But all was not sweetness and light. The fisheries failed in two consecutive years; Canada's reciprocity treaty was terminated by the United States, and there was a general decline in business. Business slackened in the United States, commodity prices fell, there were many failures and severe unemployment, money was tight, speculation in railroads helped to precipitate panic, many banks and brokerage houses failed, and in 1873 the stock exchange was closed for ten days. All of this had its effect in Canada. The Bank of Acadia was suspended and the Bank of Liverpool closed its doors; there was a decline in wooden shipbuilding, the principal industry in Nova Scotia.

The Merchants Bank weathered the storm, though there was little growth in its business. There was some loss through customers who were involved in failures, but the usual dividend was announced and $40,000 more was added to reserves.

The directors took a long view. In 1873, the year in which Prince Edward Island entered Confederation, they extended their business to that province, and in 1876 they purchased land in Halifax which was until recently the site of the bank's main office.

In the second part of the decade several events occurred which had far-reaching effects on Canada's history: the Northwest Mounted Police force was established, bringing Western Canada under the law; the Intercolonial Railway was opened between Halifax and Quebec; the first wheat

was exported from Manitoba to the United Kingdom; and for the first time in federal politics the secret ballot was used in an election.

Ready for expansion (1879-1888)

The first year of the bank's second decade is accepted as the beginning of the history of modern manufacturing in Canada. The bank's president commented that the institution had carried its full share of the burden imposed by the dull times, but "it is now in a position to take advantage of any improvement in business when it arises."

By 1882 conditions had begun to improve, and only a little encouragement was needed to send the bank out upon the high seas. The significance of the first foreign branch was shrouded in the commonplace nature of its coming about. The bank's accountant had suffered a severe attack of rheumatism, and the president thought that he would improve under the sunny skies of Bermuda. While there, he might, if he found a suitable opening, establish an agency at Hamilton. He did.

In the same year a new and modern step in banking was taken: agents were supplied with cipher books and authorized to make telegraphic payments through the bank's correspondents.

The bank moved into Quebec province in 1885 with the opening of a branch at Paspébiac, and two years later that Babel of financial houses, Montreal, was entered, adding one more to the thirteen banks already established.

These openings marked the growth of the bank from a strictly Maritime institution to a Canadian one. Expansion of transportation helped greatly. The last spike in the Canadian Pacific Railway main line was driven in November 1885; the first through train from Montreal to British Columbia ran in 1886; and the Welland Canal opened for navigation.

Viewed from today's great achievements on earth and beyond it, the development of the bank may seem small, but it must be viewed in the light of its environment, not all of which was good. In 1885, two of Nova Scotia's greatest industries, heavily indebted to the Merchants Bank, passed into the hands of receivers. The bank's profits of the year were wiped out and the reserves drawn upon for $80,000.

Two things were done by the bank which are typical of the good banking practice it has followed throughout the years: the cause of the loss was analyzed and safeguards were set up, and the decision was reached that if enterprises of national importance were to be financed, the bank must become national in its scope, with capital and reserves so large that its position could not be shaken by local losses. Within three years the loss had more than been made good and the reserve fund restored to its former strength.

There were menaces other than those of shaky customers. The first hold-up of an office of the bank occurred. The teller, menaced by a robber holding two revolvers, sprang to defend the vault. Shot twice, he held on until his junior brought help from neighbouring stores. He recovered, was given an increase of $100 per annum, and presented with a gold watch and chain.

Managers (they were called "agents" in those days) were not paid on a princely scale. In fact, some of them were obliged to work on the side as insurance agents, often making more in that way than through salary. A breakthrough was made in 1887 when the directors authorized an allowance of $150 a year to enable the manager at Sackville to keep a horse and wagon for the purpose of visiting Dorchester twice a week.


THE
ROYAL
BANK
OF

Two innovations (1889-1898)

In the first year of its third decade, the bank started two new projects which are today among the most thriving of services: Safety Deposit Boxes and a Savings Bank Department.

But most men in the service were more engrossed in events which were shaking Canada's economy through their effects upon world trade: a slow-down of foreign investments by British capital, financial panic in the United States, and higher tariffs.

The failure of Baring Bros., through default of the Argentine Government in payment of its obligations, created suspicion in England about the soundness of all foreign investment. Passage of the McKinley tariff bill lessened exports to the United States. Then, in 1895, there occurred the worst financial panic in the history of the Republic. There was a threat of war between Britain and the United States. Solicitude for the Monroe Doctrine prompted President Cleveland to send a message to Congress urging a one-sided commission of inquiry into a dispute about the boundary between Venezuela and British Guiana. Britain rejected the suggestion. Stocks and bonds fell, the price of money rose from two per cent to eight per cent. But, says the United States historian, "the danger was finally averted through moderation on England's part."

Through all this the bank kept its head, although the depression became world-wide. In Australia, eleven out of sixteen chartered banks suspended business. But the Merchants Bank went into Newfoundland when the capital of the Ancient Colony was devastated by fire and all its banks failed, and aided greatly in restoring the economy. It made the leap to the Pacific, opening branches in British Columbia where the discovery of gold offered attractive opportunities for expansion. In the closing years of the decade it was bracing itself to enter the big league: New York.

The directors of the bank believed in making every dollar earn its way. At this time the deposits were 25 per cent less than the loans, the difference being represented in capital reserve and circulation. It was not until 1901 that deposits reached a par with loans. But they also believed in having a staff that lived within its means. Officers of the bank were forbidden to marry unless they were in receipt of a stated minimum salary. One man received permission to marry if the difference between his present salary and $1,000 were guaranteed from an outside source. In those days $1,000 was equivalent in buying power to more than $3,000 in today's values.

The third Census recorded 4,833,239 people; the new Sault Ste. Marie Lock was opened; a railroad was completed across Newfoundland from St. John's to Port aux Basques; Canada's first gasoline-driven car was made in Sherbrooke, Quebec; and the Stanley Cup, emblem of ice hockey supremacy, was donated.

A new century (1899-1908)

Having built up its resources and obtained a broad base of operation, the bank entered upon its fourth decade prepared and eager for an era of expansion, and it set a record of growth unsurpassed in banking history.

Following the end of the war in Cuba in 1898 the bank became impressed by the prospects of business there. A branch was opened in Havana in 1899, and how well it fulfilled its functions is indicated by the fact that it was appointed agent of the Government of Cuba to distribute some $60 million due by the government to the army of liberation. This confidence contributed greatly to the bank's



prestige — a prestige which it maintained unimpaired until its withdrawal under the force of political circumstances 60 years later.

Head Office was reorganized. The "Cashier" — an ancient title — became "General Manager"; "Agency" was changed to "Branch"; and the "Agent" became "Branch Manager".

Supervisors' departments were established in Vancouver and Havana, an office was opened in Ottawa, and the bank moved its Head Office to the new centre of Canadian business, Montreal. In keeping with its new stature, it changed its name to "The Royal Bank of Canada", marking its growth from a local child to an adult of international character. Graduation was on January 2, 1901. That the governmental authorities were not overly impressed by the bank's stature is evidenced by inclusion of a paragraph in the impressive Act of Parliament saying that the change shall come into force upon its publication in *The Canada Gazette* . . . "upon receiving a sum sufficient to pay the cost of such publication."

Canada was experiencing rapid growth in this period, prompting the bank to spread its branches to Toronto, Winnipeg, and many other points. In four years it more than doubled its number of branches — to a total of 95 in Canada and 14 abroad. Deposits reached $37 million.

The staff had grown to 629 when the officers' pension fund was established, succeeding the old superannuation fund started in 1895. Staff was still managed by the Board of Directors, who scanned every application, and took on desirable applicants for three months' trial. If a youth did well he graduated as a junior at the standard pay of $100 per annum.

National events in this decade included the fourth Census, which showed a population of 5,371,315; the first wire-

less message over the Atlantic was received by Marconi at St. John's, Newfoundland; the famous Marquis strain of wheat was developed; Alberta and Saskatchewan were created provinces; and the world's richest silver mine was discovered at Cobalt, Ontario. Matters of minor interest included some events that are better remembered than are more momentous matters: Robert Service started as a bank clerk in the Yukon; Tom Longboat, long-distance runner, beat a horse over a 12-mile course; a Hamilton man won the marathon at the Olympic Games in Greece; and Mrs. Taylor survived a sail over Niagara Falls in a wooden barrel.

Through prosperity and war (1909-1918)

The bank's fifth decade was one which began prosperously in Canada, but it ended in depression and war. The former was due to land speculation, unsound company promotion and municipal extravagance; the latter served to open the West Indies economically. A huge market for sugar and other tropical commodities provided sales at high prices, and the reciprocity treaty of 1913 brought Canada into the picture. Cuba was entirely covered with branches. Branches were opened in Venezuela, British Honduras, British Guiana and other points in the Caribbean area. In ten years the bank expanded its branches to 548, and its assets to $427 million.

In 1910 the bank opened its first overseas branch in London, and in the same year it purchased and absorbed the Union Bank of Halifax, adding 35 branches, most of them in the Maritimes. In 1912 it absorbed the Traders Bank of Canada, with 100 branches and the best banking connections in Ontario. A few years later the organization was balanced by acquisition of the Northern Crown Bank, adding 76 well-located branches in Western Canada and 20 elsewhere. The Quebec Bank was taken over, with branches for the most part in Quebec province. There were now no cities and only a few towns in Canada in which the Royal Bank was not represented.

During the Great War which began in 1914 and lasted until November 1918, the Royal Bank shouldered its share of the Government's financial burden and encouraged and helped farmers to increase the supplies of food so sorely needed by the Allies. Advances were made for the first time on seed grain and to breeders of cattle.

There were 1,493 officers of the bank under arms; 186 died in action; 47 won decorations.

Much of the new branch opening in the latter part of this decade was in the Prairie provinces. There were no statistical devices, customer-traffic measurement, or appraisal by specialists in those days. If word was received at the supervisor's department in Winnipeg that such a point had prospects and that some other bank was considering the field, a man would be put on the train that night going west with a "Royal Bank" sign of some sort, a small supply of stationery, and a satchel of cash.

One man tramped to a remote prairie settlement with a sleeping-bag and a haversack at his side, set up a tent, and began business. A pioneer manager arrived at his destination in Saskatchewan with only $15 in cash. He bought a few school scribblers for use as day-book, cashbook and ledger; made a counter out of a plank supported by a nail keg and a saw-horse; and opened for business. By nightfall of his first day he had $7,000 on deposit.

Those were the days of individual bank notes. Every note had to carry the written signature of an officer. Packages of unsigned notes were shipped to branches where there were managers authorized to sign.


AGNES
OTTE

Internal Canadian events of interest during these ten years included the first flight in the Empire by a heavier-than-air machine under its own power; the fifth Census tally, 7,206,643; the first Canada-West Indies trade conference; and the parliamentary franchise in federal elections extended to women.

Ups and downs (1919-1928)

The decade in which the Royal Bank celebrated its fiftieth anniversary of incorporation was a period of ups and downs. There was a speculation boom that crashed; there were years of recession and recovery; then renewed speculation building up to the biggest crash in history.

The bank started off well, being proud of its half century record of achievement. It commemorated the occcasion by paying a 20 per cent bonus to its staff; opening 102 branches in Canada, three in Newfoundland, and 14 at foreign points. Paid-up capital stock was $17 million; deposits, $419 million; loans $284 million; assets, $534 million; branches, 662 and staff, 5,294.

Midway in the decade the bank absorbed the Union Bank of Canada, with its 320 branches, of which 212 were in the three Western provinces.

Banking in the years following the war was a difficult and trying occupation. The inflation came to an end, causing a world-wide drop in prices of commodities. This brought about cancellation of contracts, with disastrous results to many firms. The bank's assets, which had been climbing year by year, shrank by $90 million in one year.

The branches established in foreign countries had proved advantageous to the bank and of utmost importance to the people they served, but they did not escape the depression. The worst set-back was in Cuba, where sugar formed the barometer of business. From a high of 22 cents the price plunged to below two cents, and much hardship was caused. The Royal Bank, by keeping its Cuban branch doors open while three local joint stock and several private banks failed, justified the confidence of its Cuban customers and Cuba's world customers. It was one solid element in a quicksand environment.

Foreign expansion during this period included opening a branch in Paris, another in Barcelona and one in Vladivostok. The French operation is the only one continuing today, because the Spanish civil war closed the branch there and the Russian adventure lasted only seven months. After wrestling with many difficulties, not the least of which was a telegram signed by Lenin and Trotsky in which they declared: "the free democracy of Russia demands the right to work out its destiny without the assistance of your dollars," the branch in Russia closed its doors.

While the bank was in good heart, it recognized the signs of approaching trouble. As early as the beginning of 1928, its General Manager warned: "With prosperity general, and prospects never before equalled in our history, sound judgment will recognize that Canada is now in that phase of business when the setting up of strong reserves is more far-sighted than a policy which permits expansion to be carried to a point where over-production in industry becomes inevitable. Undoubtedly speculation in stocks has been carried too far, and it is the duty of the entire financial community to do everything possible to prevent further speculative excesses, which, if not curbed, must inevitably lead to trouble."

Care for its staff continued to mark the policy of the bank. It boasted that no aspiring, qualified youth is lost sight of: no special qualities are overlooked; and as a consequence its


STOCK MARKET
CRASHES!

young men can go just as far up the ladder as their ambitions lead them. The Royal Bank was among the first financial and industrial concerns to provide group insurance for employees.

The bank's *Monthly Letter*, which this year published its fiftieth volume, was inaugurated in 1920 as a financial sheet reviewing general trade conditions and opportunities. It was changed in 1943 to a *Letter* of more general interest. The new Head Office building at 360 St. James Street West was completed in 1928.

Events of national interest during this period included: organization of the Canadian National Railway; the first airplane flight over the Canadian Rockies; the sixth Census (8,787,949 people in Canada); the first Canadian Minister appointed to Washington; the first British High Commissioner to Canada appointed; the first air mail service; the first coast-to-coast radio network broadcast; and the first woman elected to the Canadian Parliament.

A decade of trouble (1929-1938)

The stock market continued to boom in the early part of 1929, in spite of the warning repeated by the bank's General Manager in January: "In these days of progress and prosperity we will above all things endeavour to maintain a proper perspective and to keep our feet on the ground."

The big break came in October. The index of industrial stocks on the New York exchange dropped from a high of 380 to 230 at the end of the year. Thousands of firms in Canada were bruising themselves against the bitter wall of falling money values. Business slowed, in the next few years, almost to a standstill.

The bank was affected, of course. Many borrowing accounts which had been believed safe were now causing concern, but the Royal Bank established a reputation for showing great consideration for its borrowing clients who found the going heavy. The bank's policy was that it was in the interests of the bank, its customers, and the nation that customers should be carried through. Many of these are today among the bank's best customers.

By 1931 the Western Grain Pools were in deep water. Having paid $1 per bushel as the initial payment to growers, they saw the selling price of wheat drop to 35 cents before the stock could be disposed of. Montreal's largest stock brokerage house, a customer of the Royal Bank, failed. The bank closed 36 branches because they were operating unprofitably.

It was considered advisable in 1933 to tidy up the bank's balance sheet, and $15 million was transferred from the Reserve Fund to strengthen the Inner Reserves of the bank, reducing the published total to $20 million. It was a momentous move for a Canadian bank to reduce its published reserves, but the provision of a safety net in the form of inner reserves has proved its worth again and again.

There were a few bright spots in this cloudy decade. Pitchblende, the source of uranium, was discovered at Great Bear Lake; the Statute of Westminster established complete legislative equality of the Parliament of Canada with that of the United Kingdom; the Census recorded 10,376,786 people in Canada.

Industrial growth (1939-1948)

After weathering the between-wars depression with resources and vigour unimpaired, the bank entered World War II prepared to play its part in financing a vastly increased industrial effort. To Canada's immense resources of agriculture, mining, and forestry were added a tremen-

dously enlarged and diversified industrial plant, new mechanical skills, and a wide knowledge of large-scale production.

All banks shared in the problem of providing staff, and to curtail unessential services the Royal Bank closed 39 branches. At the end of 1939 the bank had 4,065 men and 1,100 women staffing its Canadian operations. Leave was granted to 2,171 men from Canadian branches so that they could serve in the armed forces. At the end of the war the bank was staffed by 2,038 men and 4,639 women.

The Paris branch was cut off from Head Office by the invasion in June 1940. It moved, slightly ahead of the German army, to Cognac, and all the Canadian and British members of the staff escaped to England. The branch operated on a limited scale permitted by the German authorities until the war's end, when the Paris branch resumed normal business.

An interesting war-time episode was the unloading one day of a crate weighing three tons at the Notre Dame Street entrance to Head Office and its storage under heavy guard in an unused room in the basement. When it had been safely delivered to Washington it was revealed that the crate contained the model of the Merlin-Rolls Royce airplane engine which was to be manufactured in the United States.

When peace was restored in 1945 the bank's Balance Sheet showed that total assets had passed the $2 billion mark for the first time. Nearly eight hundred men had returned to service with the bank and they were given every opportunity to re-establish themselves quickly. Years of service with the armed forces counted as years of service in the bank for pension purposes. Every effort was made to find fitting positions in the bank for men who were unlucky enough to be handicapped by wounds.

Many things worthy of mention in ordinary times were overshadowed by the demands of a world war, but two highlights appear in the books. The eighth Census showed the population to be 11,506,655 and a referendum in Newfoundland favoured entry of that colony as a province in Confederation.

Entering a new era (1949-1958)

Instead of the depression which many expected, basing their calculation on preceding instances, Canada entered upon a period of tremendous post-war development, both economically and politically.

Newfoundland became part of Canada; the British North America Act was amended by vesting in the Canadian Parliament the power to make amendments to the Constitution of Canada; six provinces and the federal government signed an agreement for construction of the Trans-Canada Highway, which now links the provinces; an oil pipeline from Edmonton to the Great Lakes was completed; the Old Age Security Act became effective; ground was broken for the power project on the St. Lawrence River; and the Census showed Canada's population to be 14,009,429.

Oil development pushed itself to the fore amid many commercial and industrial advances, particularly in Alberta. The Royal Bank became known as the "Oil Bank" because it was so active in developing the oilfields. The Bank Act revision of 1954 permitted the banks to enter the field of NHA mortgages, hitherto closed to them, and the Royal quickly seized the initiative. It had by no means lost its love for exploration and settlement, however, and it opened the first bank in Canada's Arctic: the Frobisher Bay Branch in the Northwest Territories, less than 200 miles

south of the Arctic Circle.

The bank participated actively in the postwar immigration flow, providing information about Canada through its overseas branches, welcoming newcomers through its Canadian branches, and helping them to become established.

Impressed by the efforts being made by these people to learn about their new home, the bank sponsored and supported a campaign to develop adult education for all Canadians, published a book, and raised funds.

In 1951 the bank showed its broad world interest by publishing a booklet to mark the emergence of the Republic of India as an equal partner in the Commonwealth.

A distinguished decade (1959-1968)

The 42-storey Royal Bank Building in Place Ville Marie started rising on December 29, 1959, the year in which the St. Lawrence Seaway opened to navigation, and the last bolt was tightened on July 12, 1961. Largest office structure in the British Commonwealth, the great building stands a few hundred yards from Mount Royal, and its top is only fifty feet lower than the spot where Maisonneuve planted his cross and established an outpost of New France in 1642.

This project was another example of the bank's continuing awareness of the need for change. The move took the bank's Head Office from the heart of the financial district to the centre of commercial activity. It triggered an astonishing series of events which altered forever the pattern of life and work of virtually every Montrealer. And it sparked, too, an outburst of creative ideas and plans within the bank itself.

Progressing further in its determination to present a distinctive face turned toward meeting the needs and desires of the public, the bank sought a change of emblem. Up to this time the coat-of-arms emblem of the bank had been used only as an identification mark: now it was desired to dress the emblem in contemporary style so as to serve as a selling device.

The General Manager's committee of four produced an emblem that is a selective, coherent statement about the bank in shorthand form: a lion, a world globe, and a crown. The lion is the dominant symbol, representing authority and strength; the globe represents the bank's international coverage; and the crown carries the "Royal" symbolism. The emblem, presented to the public in the *Monthly Letter* of January 1962, carries forward something of the old emblem that embodies the bank's long history of significant service to Canada, dresses it in modern garb befitting the bank's progressive attitude, and indicates the world-wide nature of the bank's services.

During this period, amendments to banking law opened the door to truly competitive banking. Heretofore the banks had been shackled by a ceiling on the price of their main commodity and hampered by a host of other restrictions: the kind of business they could transact, the hours during which they could do business, and so on. Now they entered a climate of free competition, for example in all types of mortgage loans. The Royal Bank was, of course, ready with plans, and in the first six months of operation it advanced more than half of the total conventional residential mortgage funds loaned by all Canadian chartered banks.

RoyNat was established in 1962 in collaboration with three other institutions to provide progressive incorporated Canadian companies with financing beyond the normal scope of banking facilities, and to do so at a reasonable cost. RoyWest Banking Corporation was set up to provide



similar development financing in the Bahamas and British Caribbean area. RoyMor complements Royal Bank activities toward broadening the secondary market for residential mortgages, of particular service to institutional investment funds. Through RoyFund the bank and its branches undertake most of the accounting and handling in connection with the distribution and redemption of shares and the safekeeping of securities held for the Fund.

Probably the most revolutionary of the bank's innovations was Chargex, the first all-purpose Canadian bank credit card. Its characteristics are: immediate payment to merchants of bills incurred by customers; no membership fee for cardholders; extended payment option.

The bank's entry into the credit card field is explained in this way: the extension of credit and transfer of funds are basic banking functions, and popularity of the credit card indicated that here was a new field of service to the public. To embark upon such a venture only a few years ago would have been impracticable. It had to await the development of computer technology to cope with the huge volume of transactions.

Thanks to the initiative and aptitude of the officers in its computer division the bank had a solid foundation in electronic banking. It was the first bank in Canada to install a computer, and it has found that computerization helps it to do things which were impossible before; it lifts from the shoulders of the staff more and more of the routine repetitive tasks, thus leaving officers freer to use their uniquely human skills – thinking ahead, using their imagination, and serving customers with tact and courtesy.

Canada's Centenary was marked by nationwide celebrations and the Universal and International Exhibition ("Expo '67"). The Royal Bank took part in every activity, but its unique contribution was its inauguration of the annual Royal Bank Award, consisting of a gold medal and a cash grant of $50,000 to honour "a Canadian citizen or person domiciled in Canada whose outstanding achievement is of such importance that it is contributing to human welfare and the common good." Selection of the recipient is made by a committee of six distinguished Canadians none of whom is an officer of the Bank. The Bank has nothing whatsoever to do with the selection process.

The first recipient of the Royal Bank Award was the famous neurosurgeon, Dr. Wilder Penfield; in 1968 the Award was made to Dr. C. J. Mackenzie, former President of the National Research Council, and in 1969 the choice fell upon His Eminence Paul-Emile Cardinal Léger, who in 1968 renounced his position as Archbishop of Montreal to become chaplain of a leper colony in Africa.

Inexhaustible vitality

The history of the Royal Bank's first hundred years leaves no room for thinking of it as a staid corporation which has suddenly awakened, like Rip Van Winkle, to a new world.

The current introduction of new ways is not a revolution but a continuing development. The Royal Bank has always been receptive to new ideas: now it is moving faster in keeping with the tempo of its environment. While some of its staff were doing the everyday work, it has always had people in its ranks who were thinking of what beneficial changes should be made tomorrow.

Plans have been completed for innovations and improvements to be introduced in the next few years; projects are on the bank's drawing boards for implementation far in the future. Its second century will be fully as animated and forward-moving as was its first.

A note on the Author

Author John R. Heron, 72, has for 26 years — more than a quarter of the century he describes — been the writer, editor and creative spirit behind the much-acclaimed *Royal Bank Monthly Letter.*

A former newspaperman and associate editor of the *Toronto Star Weekly,* Mr. Heron thinks of himself as neither banker nor economist, but as teacher. In this role, his thoughtful, classical essays on an astonishing array of topics have stimulated, amused, informed and inspired hundreds of thousands of readers not only in Canada but around the globe. Reflecting the bank's character as a friendly, human institution, the *Monthly Letter* represents its author's belief that "the best public relations is the truth". In applying this principle, John Heron has probably won more friends for the Royal Bank than any other man.

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Thursday
January 9, 1969

MONTREAL, January 9: A fresh look at the problem of international monetary relations might suggest that it is time for a different set of rules for the international payments system, the executive vice-president of The Royal Bank of Canada said today at the 100th annual general meeting of the bank's shareholders.

Stating that 1968 will surely go down in the annals of international monetary relations as "the year of crisis and co-operation," John H. Coleman advanced the suggestion that, while a full-scale "Bretton Woods Conference" could lead to serious difficulties, a meeting of the major nations -- a "mini Bretton Woods" -- might well be called to consider new rules for the international exchange system.

Speaking as chairman of the meeting -- in the absence due to illness of W. Earle McLaughlin, chairman and president -- Mr. Coleman recommended that such an international meeting would do well to consider a system of flexible exchange rates combined with strict rules fixing exchange reserves.

"Possibly what we should do, he said, "is not to fix exchange rates and leave national levels of exchange reserves free to move. Rather....we should leave exchange rates free to move and fix national levels for exchange reserves."

Outlining the causes of the inflexibility that now threatens to destroy the present international monetary system, Mr. Coleman stated: "The present system encourages some countries to defend indefensible positions until the final inevitable defeat is catastrophic. Other countries, in a temporarily strong position, see no reason to make adjustments necessary, they would argue, only because of their neighbours' folly and general addiction to inflationary policies.

"The architects of the present international system, who drew up the Articles of Agreement to establish the International Monetary Fund and the International Bank of Reconstruction and Development, were close enough to the 1930's to be greatly impressed -- and rightly so -- by the dangers of a return to the competitive exchange-rate devaluations and generally chaotic monetary and trade

conditions that prevailed, especially in the first half of the decade." Mr. Coleman continued: "As a result they leaned strongly towards a system of exchange rates with fixed parities to be policed by an international body. However, the parities were to be adjustable in case of need; i.e., adjustable when, to use their own phrase, a 'fundamental disequilibrium' developed in one or more member countries of the system.

"Unfortunately, exchange-rate adjustment, under the present arrangements, is subject to economic pressures and political sensitivities, unforeseen by the founding fathers at Bretton Woods. As a result, a necessary adjustment is likely to be postponed, usually in favour of controls, until almost all hope for its success has disappeared."

Key Currency

Mr. Coleman went on to explain that under a system such as he proposed -- floating exchange rates with fixed exchange reserves -- there would be a key currency, presumably the U.S. dollar, which would appear to be constant, with other currencies adjusting gradually up or down in relation to it.

"Some countries," stated Mr. Coleman, "might choose to fix their rates in terms of the U.S. dollar, in which case, the constant-reserve requirement would mean that they would also have to tie their fiscal and monetary policies closely to those of the United States."

He said that countries choosing to float their rates would be in automatic external balance and that aside from minor smoothing operations their exchange reserves would remain automatically at the fixed level set by the new IMF rules.

"Under either option, therefore," he continued, "all countries would be in external balance, which means that the key currency, and hence the whole international monetary system, would be in continuous equilibrium. Nevertheless, this does not mean that a country could pursue unsound policies with impunity."

The Royal's executive vice-president pointed out that in such a system -- in which the IMF would police adherence to fixed exchange reserves -- there would be no need for exchange controls "...and all the paraphernalia we have come to associate with present international monetary arrangements."

Immediate Penalties

"The penalties of failure to maintain discipline in the proposed system would be immediate and readily apparent," he said. "Inflation would be registered by a steadily falling exchange rate and consequent worsening of the terms of trade resulting in a further loss in welfare for the population of the inflating country. Inappropriate deflation and unemployment would be registered by a steadily rising exchange rate and further hardship due to a shrinking export market."

Mr. Coleman added that the proposed system, though no panacea that would guarantee the comfort of the authorities regardless of excesses of policy, would at least guarantee them the freedom of action necessary to pursue sound policies of stabilization. The monetary and fiscal authorities would no longer be forced, as they can be under the present system, to "import" inflation or deflation from abroad.

"The success or failure of stabilization policy, under the proposed system, would depend entirely upon the wisdom of its creators and administrators and on the efficiency of the monetary and fiscal machinery of the country."

Mr. Coleman backed-up his proposal by pointing out that the principle involved is not inconsistent with the so-called "band proposal", which would widen the present IMF limits to, say, plus or minus 5 per cent of parity.

"Nor," he continued, "is the principle inconsistent with the numerous proposals for some kind of 'crawling peg', which would provide for gradual adjustment

in IMF parities to some agreed formula. And both these proposals are now receiving strong and growing support."

In summing up his proposal Mr. Coleman stated that he believed that some kind of fixed-reserve formula should accompany any significant increase in exchange-rate flexibility, if undesirable exchange-rate manipulation is to be completely eliminated.

Year of Crisis

Reviewing the monetary crisis of the past year, Mr. Coleman said that the round of crisis began with the events leading to sterling devaluation on November 19, 1967; continued in early 1968 with an attack on the Canadian and American dollars; and, in late 1968, completed the circle with a flight from the French franc, mainly into West German deutschemarks.

"The devaluation of any major currency is bound to create uncertainty in international exchange markets. Indeed," Mr. Coleman continued, "the Canadian dollar's strength in the period preceding the sterling crisis was due in part to a flight from the pound into other currencies, including the Canadian dollar. After sterling devaluation, this temporary source of strength disappeared, and the Canadian dollar, along with a number of other currencies, became vulnerable to speculation ... the Canadian dollar was no exception, especially after the first of the year: and it mattered not at all that the Canadian economy was enjoying its best performance since the boom of 1966."

In any exchange crisis, the first line of defence is on the home front, he stated: "The Canadian monetary authorities reacted immediately to the attack on the dollar with a policy of monetary restraint resulting in a higher general level of interest rates in the Canadian economy...in an exchange crisis, high interest rates become a necessary evil, if we are to attract foreign funds and keep domestic funds at home, and thereby defend the external value of the currency."

International Co-operation

Mr. Coleman then pointed out that the second, "and perhaps in the end decisive, line of defence open to the authorities was provided by the co-operation of the international community of governments and central banks."

International co-operation through international credits, and through special concessions by the U.S. (the U.S. Treasury announcement that Canada was exempt from mandatory controls on U.S. direct investment abroad and from the guidelines on U.S. banks and near-banks on March 7th) soon restored the Canadian dollar to the buoyancy appropriate to the basic strength of the Canadian economy.

"But," stated Mr. Coleman, "co-operation is a two-way street, and no one can object to the principle that Canada must reciprocate by co-operating in turn with a friendly and helpful neighbour."

He stated that there must surely be a better way (of effecting co-operation) that does not involve a step backwards towards the depression and wartime system of controls which the Bretton Woods Conference of 1944 was called upon to demolish.

Mr. Coleman concluded his address by stating: "We may now hope that the year of crisis and co-operation will in the end provide the stimulus needed for a complete review of our international monetary arrangements, whatever the machinery used to bring it about.

"Canada's trade and international-payments position remains strong, and her dollar buoyant. Nevertheless, Canada's economic good health depends in the long run on that of her trading partners. No man -- or nation -- is an island. The past year of crisis and co-operation bears this out all too well.

"Co-operation without crisis would provide the kind of economic environment in which freedom of international trade and capital flows could flourish, to the enormous benefit of Canada and of her partners in the world economy."

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Address delivered by
John H. Coleman
Executive Vice President
The Royal Bank of Canada

at the
100th Annual Meeting of Shareholders
Thursday, January 9, 1969

INTERNATIONAL MONETARY COOPERATION

1968 and The Future

I

Introduction

In the annals of international monetary relations, 1968 will surely go down as the year of crisis and co-operation.

The round of crises actually began with the events leading to sterling devaluation on November 19, 1967; continued in early 1968 with an attack on the Canadian and American dollars; and, in late 1968, completed the circle with a flight from the French franc, mainly into West German deutschemarks.

I shall begin with the crisis closest home: the attack on the Canadian dollar in the first quarter of 1968, and the special defences mounted, with the help of international co-operation, to turn the tide. I shall then have something to say about our existing machinery for international monetary co-operation and some recent proposals for its improvement.

II

Basic Strength of the Canadian Dollar

At our annual meeting last year, our Chairman and President, W. Earle McLaughlin, made the statement that the Canadian dollar was basically strong. These, in fact, were his words:

> "I repeat that the Canadian dollar has been basically strong since the end of 1962. It is strong now and I predict it will continue to be strong."

Since this statement antedated by only one week a severe run on the Canadian dollar, some may have been tempted to use it as an object lesson in the perils of forecasting. Nevertheless, the dollar was basically strong, as shown by its performance after what must have been the shortest and least necessary "crisis" in recent monetary history.

Back in October, 1967, the Canadian dollar was embarrassingly strong. The devaluation of the pound sterling on November 19, 1967, seemed to pose no immediate threat, and the Canadian dollar remained remarkably steady over the remainder of the year.

Nevertheless, the devaluation of any major currency is bound to create uncertainty in international exchange markets. Indeed, the Canadian dollar's strength in the period preceding the sterling crisis was due in part to a flight from the pound into other currencies, including the Canadian dollar. After sterling devaluation, this temporary source of strength disappeared, and the Canadian dollar, along with a number of other currencies, became vulnerable to speculation.

Speculation is based on fear or hope of gain, not necessarily on solid economic fact. Each Friday, or so it seemed, one or more of the "vulnerable" currencies came under attack owing to positions taken over the weekend to profit from a possible devaluation.

The Canadian dollar was no exception, especially after the first of the year: and it mattered not at all that the Canadian economy was enjoying its best performance since the boom of 1966. Indeed, were it not for the lag in the publication of trade figures

and other data showing the strength of the Canadian economy, it is quite possible that the Canadian exchange crisis would never have occurred at all!

Nevertheless, it did occur; and the monetary authorities were forced to take strong defensive action.

III

Bank of Canada Action

In any exchange crisis, the first line of defence is on the home front.

The Canadian monetary authorities reacted immediately to the attack on the dollar with a policy of monetary restraint resulting in a higher general level of interest rates in the Canadian economy.

The rise in rates was the clear result of the monetary policy forced on the authorities by the exchange crisis, which affected all rates.

In an exchange crisis, high interest rates become a necessary evil, if we are to attract foreign funds and keep domestic funds at home, and thereby defend the external value of the currency.

IV

Action through International Co-operation

The second, and perhaps in the end decisive, line of defence open to the authorities was provided by the co-operation of the international community of governments and central banks.

In order to keep the Canadian dollar from falling below the range established under the rules of the International Monetary Fund, the Bank of Canada, as manager of the Exchange Fund Account, had to buy Canadian dollars using Canada's reserves of U.S. dollars for the purpose. The resulting heavy loss of exchange reserves made it necessary to borrow U.S. dollars or other convertible foreign currencies in order to provide the ammunition necessary for further support.

Within a very short time, Canada had credit lines from all sources, public and private, totalling over $3 billion, of which she had drawn down only $698 million. These drawings made her gross exchange reserves (including borrowings) $2 billion, 795 million,

with $2 billion, 390 million in lines still available. Total potential reserves at May 31, 1968, were, therefore, $5 billion, 185 million -- an impressive figure calculated to dampen the ardour of even the most enthusiastic speculator!

It would appear that the speculative attack on the Canadian dollar ended in the middle of March, shortly following the announcement, by the U.S. Treasury on March 7th, that Canada was exempt from mandatory controls on U.S. direct investment abroad, and from the guidelines on U.S. banks and near-banks.

The Canadian dollar returned to its parity point of U.S. 92.5 cents on April 4th, and, since July 22nd, when it reached its upper IMF limit, reserves have increased, and all "crisis loans" and lines of credit have been repaid or cancelled.

V

From Co-operation to Controls?

International co-operation through international credits, and through special concessions by the United States, soon restored the Canadian dollar to the buoyancy appropriate to the basic strength

of the Canadian economy. But co-operation is a two-way street, and no one can object to the principle that Canada must reciprocate by co-operating in turn with a friendly and helpful neighbour.

But surely there is a better way, that does not involve a step backward towards the depression and wartime system of controls which the Bretton Woods Conference of 1944 was called upon to demolish.

Perhaps we should take a new look at our international monetary system which, under present conditions, seems to make a return to controls inevitable.

VI

The Breakdown of the International Monetary System

Beginning with sterling devaluation on November 19, 1967, our international monetary system has presented us with three major exchange crises.

After sterling devaluation, we had the "Friday Series", including the run on the Canadian dollar, and, in the "gold rush" of early 1968, on the U.S. dollar as well.

The gold rush was checked, at least temporarily, by the two-tier price system for gold agreed to by the members of the Gold Pool.

However, when November rolled around again, in 1968, we had a third crisis affecting primarily the French franc, and, as usual, the pound sterling, especially in their position vis à vis an increasingly buoyant deutschemark.

An international system with this kind of record is, to say the least, difficult to defend by any rational argument; and there is already hope that even some of the stouter defenders of the system as it stands are willing to entertain ideas for reform.

What is clearly needed is greater flexibility, especially in exchange rates, so that market forces may be allowed to create an automatic mechanism of adjustment. The present system encourages some countries to defend indefensible positions until the final inevitable defeat is catastrophic. Other countries, in a temporarily strong position, see no reason to make adjustments necessary, they would argue, only because of their neighbours' folly and general addiction to inflationary policies.

What, then, can be done?

VII

Some Possibilities for Action, and a Proposal

What can be done depends, first of all, on an understanding of the causes of the inflexibility that now threatens to destroy the system.

The architects of the present international system, who drew up the Articles of Agreement to establish the International Monetary Fund and the International Bank for Reconstruction and Development, were close enough to the 1930's to be greatly impressed, and rightly so, by the dangers of a return to the competitive exchange-rate devaluations and generally chaotic monetary and trade conditions that prevailed, especially in the first half of the decade. As a result, they leaned strongly towards a system of exchange rates with fixed parities to be policed by an international body. However, the parities were to be adjustable in case of need; i.e., adjustable when, to use their own phrase, a "fundamental disequilibrium" developed in one or more member countries of the system.

Unfortunately, exchange-rate adjustment, under present arrangements, is subject to economic pressures and political sensitivities, unforeseen by the founding fathers at Bretton Woods. As a result, a necessary adjustment is likely to be postponed, usually in favour of controls, until almost all hope for its success has disappeared.

What we apparently need, therefore, is a smooth mechanism to handle exchange-rate adjustments; and it is doubtful, indeed, whether anything more than smooth exchange-rate adjustments are necessary for any type of disequilibrium. On the one hand, the support arranged for the Canadian dollar in the first quarter of 1968 would have been unnecessary had the Canadian dollar itself had more leeway to move. On the other hand, the massive defences set up to support the pound sterling were powerless to prevent a fairly drastic devaluation on November 19, 1967, or to prevent other raids on sterling during the international monetary crises of 1968.

There are two approaches to the question: "What can be done?"

One approach would pursue the same course as that laid down at Bretton Woods, with certain improvements -- especially in the mechanics of adjustment for bringing about trade and payments equilibrium.

One suggestion, in line with this approach, is to call a new "Bretton Woods Conference." This has, I think rightly, been rejected by a number of experienced central bankers and other experts on the ground that news leaks from such a conference (110 nations), with world exchange markets open, could lead to disastrous waves of speculation.

Another suggestion is to call a conference with a smaller number of members -- perhaps the Group of Ten plus two or three other important trading nations with vital interests in the problems of the international payments mechanism.

A different approach, which I would favour, does not exclude reconvening some kind of new "Mini Bretton Woods." However, I would suggest a re-examination of the premises of the "Old Bretton Woods",

because acceptance of those premises might pre-determine the shape of any reforms arising from the new conference.

The conference of 1944 based its deliberations, as I have said, on the major premise that, whatever the details of the mechanism, the system, in the light of the lesson of the 1930's, must be basically one of fixed exchange parities.

The system, as it finally evolved, in the form of the International Monetary Fund, established a set of parities for all members of the Fund, based on submissions by the members themselves. Under Fund rules, the maximum fluctuation for any currency was fixed at 1 per cent above or below the established par of exchange.

Exchange reserves were of course expected to fluctuate freely, as in the past; but the purpose of these fluctuations would necessarily be to keep the member nation's currency within the narrow range of fluctuation allowed by the Fund. The Fund, itself, would police the system to ensure that members adhered, in all but exceptional circumstances, to the original parity plus or minus the 1 per cent allowable range of flexibility.

Of course, the real lesson of the 1930's is that no international monetary system will work well in the chaotic environment of severe world depression. However, in so far as the international monetary system itself contributed to the general chaos, it was not because exchange rates floated but because some countries used their exchange reserves to manipulate their exchange rates in a round of competitive depreciation.

This was misguided policy even from a selfishly national point of view, and it ruined any chance of restoring stability to the international monetary system. Nevertheless, had these countries been unable to alter the level of reserves they could not have manipulated their exchange rates, and the freely floating rates in themselves could, at that time, have relieved rather than aggravated international instability.

It is not surprising that the founding fathers at Bretton Woods in, quite properly, rejecting the manipulated rates of the 1930's chose fixed rates as the alternative. However, it would be unfortunate if at some new Mini Bretton Woods the whole effort were to be wasted in an attempt to patch up a discredited system.

In the light of what has happened, a fresh look at the problem today might suggest that it is time for a different set of rules. Possibly what we should do is not to fix exchange rates and leave national levels of exchange reserves free to move. Rather, perhaps we should leave exchange rates free to move and fix national levels of exchange reserves.

One of the strongest objections to flexible exchange rates is that nations would use them, as in the 1930's, to subsidize exports and penalize imports at the expense of their trading partners. This could not occur if the level of a country's exchange reserves were fixed within narrow limits,just as exchange rates are fixed under present IMF rules.

The width of the limits on reserves should be sufficient only to allow a country to intervene on either side of the market for smoothing purposes, but not sufficient to buck a trend in the level of the exchange rate. As a result, the exchange rate would reflect fundamental demand and supply factors in the market, and exchange reserves over time would be essentially unchanged.

In such a system, there would of course be a key currency, presumably the U.S. dollar, which would appear to be constant, with other currencies adjusting gradually up or down in relation to it. Some countries might choose to fix their rates in terms of the U.S. dollar, in which case, the constant-reserve requirement would mean that they would also have to tie their fiscal and monetary policies closely to those of the United States.

Countries choosing to float their rates would be in automatic external balance, and, aside from minor smoothing operations, their exchange reserves would remain automatically at the fixed level set by the new IMF rules. Countries choosing to fix their rates relative to the U.S. dollar would achieve external balance by accommodating their internal policies to those of the United States. Under either option, therefore, all countries would be in external balance, which means that the key currency, and hence the whole international monetary system, would be in continuous equilibrium. Nevertheless, this does not mean that a country could pursue unsound policies with impunity.

In such a system, in which the IMF would police adherence to fixed reserves rather than to fixed exchange rates, there would be no need for exchange controls and all the paraphernalia we have come to associate with present international monetary arrangements.

There would be no need for either such simplistic reforms as a rise in the official price of gold or for such complicated reforms as those involving the creation of a new international currency unit or the adoption of one of the various species of "crawling pegs" each geared to some ingenious and complicated formula.

Moreover, the discipline, which is supposed to be inherent in a fixed-rate system, would be automatic and severe; and there would be no perverse effects, or enforced lack of discipline, such as we see today when a nation like Germany, with a well-run economy, attempts to keep an under-valued exchange rate from rising above the upper limit set by the Fund.

The penalties of failure to maintain discipline in the proposed system would be immediate and readily apparent. Inflation would be registered by a steadily falling exchange rate and a consequent worsening

of the terms of trade resulting in a further loss in welfare for the population of the inflating country. Inappropriate deflation and unemployment would be registered by a steadily rising exchange rate and further hardship due to a shrinking export market.

Thus the proposed system, though no panacea that would guarantee the comfort of the authorities regardless of excesses of policy, would at least guarantee them the freedom of action necessary to pursue sound policies of stabilization. The monetary and fiscal authorities would no longer be forced, as they can be under the present system, to "import" inflation or deflation from abroad.

The success or failure of stabilization policy, under the proposed system, would depend entirely upon the wisdom of its creators and administrators and on the efficiency of the monetary and fiscal machinery of the country.

The principle involved is not inconsistent with the so-called "band proposal", which would widen the present IMF limits to, say, plus or minus 5 per cent of parity. Nor is the principle inconsistent with the numerous proposals for some kind of "crawling peg", which would provide

for gradual adjustment in IMF parities according to some agreed formula. And both these proposals are now receiving strong and growing support.

I believe that some kind of fixed-reserve formula should accompany any significant increase in exchange-rate flexibility, if undesirable exchange-rate manipulation is to be completely eliminated. I should like, therefore, to see my proposal, or a similar proposal for fixed-exchange reserves combined with flexible exchange rates, somewhere on the agenda of any Mini Bretton Woods convened to reform or replace our present international monetary system.

VIII

Conclusion

We may now hope that the year of crisis and co-operation will in the end provide the stimulus needed for a complete review of our international monetary arrangements, whatever the machinery used to bring it about.

Canada, as one of the world's leading traders, with an economy especially open to the inflow and outflow of goods, services,

FOR RELEASE: 12:30 P.M. EST
Thursday, Jan 9, 1969

MONTREAL, Jan. 9: In reporting on the previous year's operations to The Royal Bank of Canada's annual general meeting of shareholders today, chief general manager J.K. Finlayson pointed out that this was the 100th occasion on which shareholders had gathered to consider the performance of the bank and its plans for the future.

"What is now The Royal Bank of Canada commenced business on October 18, 1869," he said. "Operating a bank in those days was a very different proposition from what it is today. The bank and the world around it have changed tremendously. But I like to think that some things have not changed.

"I am thinking of the qualities of the people of the bank, qualities such as the imagination and courage, which not only led to the founding of the bank, but which carried it forward into new ventures in every decade of its history."

Mr. Finlayson stated that while success may be assessed in figures, it can only be accomplished by people.

The recently appointed chief general manager then presented the following highlights of the bank's financial performance: "...highlights which once again represent record highs in Canadian banking:" Assets $8,743,217,572; deposits $7,955,074,091; loans $4,739,084,397; earnings $35,324,403; shareholders'equity $360,095,236.

Mr. Finlayson went on to examine the sources and uses of the revenue dollar: "For example," he said, "more than two thirds of our revenue comes from our lending activity, with the remainder representing earnings on investments in securities of one sort or another, together with 'Other Operating Revenue', which is largely service charges and fees."

Mr. Finlayson then explained what happens to the revenue dollar. "The largest portion -- 44 cents -- is paid out as interest to our depositors. The next largest part ... some 22 cents, goes in salaries, pension contributions and other staff benefits; while property and other operating expenses account for about 15 cents of the revenue dollar, leaving us with a balance of 19 cents. Of this," he continued, "prudence dictates that we set aside an appropriation for possible future losses, income taxes must be provided for, and the remainder is available as profit for distribution through dividends or to be retained to supplement our capital."

Monetary Restraints

Commenting on the bank's loan experience during the past year Mr. Finlayson stated: "... at this time last year we commented that there had been a tightening of the banks' liquid positions, with continuing strong pressure for loans. While we were able to meet the legitimate needs of all small borrowers, both personal and corporate, we did experience some difficulty in meeting demands of some larger corporate borrowers during the early part of the year.

"There was an easing around mid-year and during the latter part of the year we were in a position to be considerably more liberal in responding to demands for loans of all types. The situation has however changed again, and the indications are that we have entered into another period of monetary restraint."

The Small Borrower

Mr. Finlayson said that the Royal had always operated on the principle that the needs of the small borrowers must be given even more careful and sympathetic consideration than those of larger borrowing clients who have more options open to them.

Continuing on the subject of consumer credit the chief general manager for the Royal stated that one of the most important and far-reaching developments during the year was the launching -- in cooperation with three other Canadian banks -- of the Chargex credit card plan.

"In planning the new service, we were conscious of our responsibility to ensure that we did not extend, through Chargex, Termplan or any other plan, an invitation to clients to become heavily involved in debt.

"We believe," he said, that through the use of Chargex rather than a wide variety of credit cards and charge accounts, our cardholders will be in a better position to manage and properly control their spending programs."

Policy of Prudence

Mr. Finlayson stated that he was considerably disturbed by the charge, "sometimes heard of late," that "the banks have given up being interested in the savings business, they just want to lend you money."

He made a number of points in refuting this charge: "First, to carry on our business we must have deposits, and this means savings. Second, good money management, for individuals as well as corporations, involves the use of deposit accounts and quite often credit facilities. Third, there is no benefit to a bank in a customer whose obligations mount to the point where he can no longer discharge them.

"It is not only our responsibility, but most definitely in our interest, to help our customers manage their affairs prudently. Indeed, in some instances the best service we can render to a customer is to say 'No' to a request for the credit. We do just this quite frequently."

Farm Finance

Mr. Finlayson went on to say that their loan plans are by no means limited to the much publicized consumer loans. "During the year we introduced a new and progressive type of loan which we called 'Farmplan' which is designed as a single package solution for a farmer's total short and intermediate term credit needs, and great emphasis is placed upon careful and knowledgeable farm financial management."

He told the shareholders that these Farmplan loans had been well received in the Prairie provinces and that they were planning for eventual expansion of the complete agricultural program across the country.

Gearing for Growth

Reporting on the restructuring of the Royal's organization which began last year Mr. Finlayson said that apart from the determination to stress modern principles of management: management by plan; clear delegation of authority and accountability and a proper balance of functions whithin the organization, the shift in organizational pattern also flowed from some careful thinking about the basic principles of their business.

First: that they were a service business -- "Everything starts and ends with the customer." Second, "To do our work most effectively we must organize and operate so as to derive the fullest benefit from the talents of our people. This, of course, involves providing a stimulating and challenging environment and rewarding opportunities for present and future staff members. Third: Effective operation also involves the need to derive the fullest benefit from the most advanced technology available, whether this be in the form of computers or other machines, or simply the application of more sophisticated methods. Fourth, in a rapidly changing

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environment, the enterprise which stands still in its way of doing things is sure to fall behind. It is therefore our business to innovate and apply imagination and ingenuity to the task of developing new and better ways of serving our clients."

Expanding Abroad

The international division of the Royal was also reviewed by Mr. Finlayson. He pointed out that despite disturbances in international financial markets -- "... the role played by our international division continues to be important, both as to its contribution to the bank's assets and earnings and in the directing of valuable business to our Canadian branches."

He said, "Canada's role as a leading trading nation continues to expand, during the past year, our bank has endeavoured to enlarge its international representation by way of imaginative and profitable expansion. In some areas, this is practical by way of additional branches and, in others, by way of associations with well established national banks."

Mr. Finlayson cited the Royal's purchasing of an interest in Banque Belge pour l'Industrie of Brussels as an excellent means of strengthening their banking ties within the Common Market.

In conclusion Mr. Finlayson thanked and complimented the bank's staff members on their individual and collective contribution through the year, saying: "If it were not for the outstanding efforts of the many people who have staffed this bank since our beginning we would never have reached the pre-eminent position we now enjoy. It is therefore only proper on the threshold of our centenary to pay tribute to all who have gone before, as well as our present dedicated staff."



Address delivered by
J. K. Finlayson
Chief General Manager
The Royal Bank of Canada

at the
100th Annual Meeting of Shareholders
Thursday, January 9, 1969

Mr. J.K. Finlayson's
Annual Meeting Address
January 9, 1969

This is the 100th occasion on which the shareholders have gathered to consider the performance of the bank and its plans for the future. It is therefore with much pleasure that I am able to report to you that the past fiscal year was a good one for the bank. It was a year of growth and a year of achievement.

It is appropriate, I think, to take a moment to cast our minds back over the years to that first meeting of the bank's owners, in Halifax in October of 1869. A few months before, an Act of the new Canadian Parliament had provided the legal basis for establishment of the bank as a federally-chartered institution, and the first meeting of shareholders actually started the bank by electing directors who then initiated operations. What is now The Royal Bank of Canada commenced business on October 18, 1869.

Operating a bank in those days was a very different proposition from what it is today. The bank and the world around it have changed tremendously. But I like to think that some things have not changed.

I am thinking of the qualities of the people in the bank, qualities such as imagination and courage, which not only led to the founding of the bank, but which have carried it forward into new ventures in every decade of its history. Most of all, perhaps, I am thinking of a certain sense of service, an attitude of responsibility, which has always illuminated the day-to-day work of the Royal Bank. As an institution set up to serve the community, a bank's growth and prosperity depend in the end upon the community's judgement of its performance. I am convinced our staff have never forgotten this.

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I stress this because of my conviction that while success may be assessed in figures, it can only be accomplished by people. In reporting on The Royal Bank's achievements in fiscal 1968, I am delighted to say that the figures are the result of a full measure of skill, energy, initiative and imagination on the part of staff members, at all levels, in all parts of the bank. I commend them for their fine performance.

Having said this, I would like to turn for a few moments to the figures, and give you the following highlights which once again represent record highs in Canadian banking:

Assets	$8,743,217,572
Deposits	$7,955,074,091
Loans	$4,739,084,397
Balance of Revenue	$102,195,403
Earnings	$35,324,403
Shareholders Equity	$360,095,236

Last year, as you know, was the first year in which the Bank Act called for publication of a detailed statement of Revenue, Expenses and Undivided Profits. We have supplemented the annual publication of this statement with quarterly reports to shareholders.

The Statement of Revenue, Expenses and Undivided Profits is reasonably self-explanatory, so I will not take your time by going through it in detail. I would comment, however, that study of this statement does help one to a fuller insight into the different facets of our business.

Examining the sources and uses of the revenue dollar, is a useful exercise. For example, more than two thirds of our revenue comes from our lending activity, with the remainder representing earnings on investments in securities of one sort or another, together with "Other Operating Revenue", which is largely service charges and fees. This division of sources of revenue is characteristic of banking, and while there are some indications that fees for service may grow somewhat as a proportion of the total in the years ahead, it is quite likely the existing pattern will continue.

What happens to the revenue dollar? The largest portion -- 44 cents -- is paid out as interest to our depositors. The next largest part of the revenue dollar -- some 22 cents -- goes in salaries, pension contributions and other staff benefits; while property and other operating expenses account for about 15 cents of the revenue dollar, leaving us with a balance of 19 cents. Of this, prudence dictates that we set aside an appropriation for possible future losses, income taxes must be provided for, and the remainder is available as profit for distribution through dividends or to be retained to supplement our capital.

During the past few months there has been some discussion of the usefulness and significance of the figure shown against the heading "Balance of Revenue". It has been pointed out that Balance of Revenue, particularly when taken in relationship with total assets, is by far the most useful single figure for comparing bank profitability, both between one year and another, and between one Canadian chartered bank and another. While this is true, it is most important to realize that Balance of Revenue is not pure profit, and I consider it misleading to apply to it any description which includes the word "profit".

The Royal Bank's Balance of Revenue in fiscal 1968 was some 48 per cent higher than in the previous year and this is a substantial achievement. Nevertheless, it would be wrong to ignore the fact that some have mistaken this for a like increase in profit and have expressed a certain amount of criticism, in terms which would indicate that the bank's profits are excessive.

But what is a proper and reasonable level of profit? There is no magic formula, but it is abundantly clear that a company which does not earn sufficient profit to provide an adequate return to shareholders on their investment is not operating as effectively as it should. Similarly, the business which through exploitation or greed earns too-high profits will in the long-run also be in trouble, because competing enterprises will provide similar products or services at less cost, and the customer will turn to them.

To return to our own particular case, we have for many years been of the opinion that the level of profitability of this and other Canadian chartered banks was less than it should have been. There are problems of establishing yardsticks for comparison of a chartered bank's profitability with that of corporations operating in other industries. It is also difficult for us to evaluate our results vis-a-vis those of banking institutions in the United States and other countries because of substantial differences in our respective services and variances in accounting practices and income tax regulations. We have, however, studied this matter thoroughly and are satisfied we have not been operating as profitably as our American counterparts or as profitably as leading corporations in many other industries in Canada.

It is gratifying therefore to see the marked improvement in net revenue which has brought our earnings picture up from a level which was less than satisfactory.

Related to all this is the subject of our Appropriation for Losses, which in the fiscal year 1968 was also increased very substantially. This increase in the amount transferred into Accumulated Appropriations for Losses has given rise to misunderstandings on the part of some people. They have mistakenly assumed that we set this amount high because we actually expected to have very large losses on loans in the near future. Because of this, I feel I should comment briefly on this subject.

While we must follow the terminology stipulated by government authorities, it is my opinion that the phrase "Appropriation for Losses" is an inadequate one, which requires amplification. This account is more than just a specific provision for losses on loans, it is a much broader contingency reserve.

The matter is fairly complicated, but perhaps I can sum it up by saying that the Accumulated Appropriations for Losses account is a general reserve set up to provide for all sorts of losses, including losses on loans, but also including both actual and potential losses on securities, exchange losses, and losses resulting from devaluations in countries where part of our capital is invested. Thus the account covers many things besides losses on loans, and I wish to stress that the amount appearing opposite the heading "Appropriation for Losses" in the revenue and expense statement does not necessarily indicate that losses to this extent are either imminent or expected.

I should also emphasize that I feel strongly that Canadian bankers have no reason to apologize for strength in their contingency reserves, nor for adding to them as risk assets rise. The long history of stability in the Canadian banking system rests upon just such prudent provisions. There are bound to be wide fluctuations in the items appearing in the statement of Accumulated Appropriations, because in some years there will be unexpected losses and in others unexpected recoveries, but the important thing is to make sure that the total reserve is at a proper level in relation to assets.

You will remember that at this time last year we commented that there had been a tightening of the banks' liquid positions, with continuing strong pressure for loans. While we were able to meet the legitimate needs of all small borrowers, both personal and corporate, we did experience some difficulty in meeting the demands of some larger corporate borrowers during the early part of the year. There was an easing around mid-year and during the latter part of the year we were in a position to be considerably more liberal in responding to demands for loans of all types. The situation has however changed again, and the indications are that we have entered into another period of monetary restraint.

We have always operated on the principle that the needs of small borrowers must be given even more careful and sympathetic consideration than those of larger borrowing clients who have more options open to them. Our concern for the small borrower is reflected in an increasing emphasis on consumer loans such as our Termplan loans. We have been well pleased with the acceptance of this plan over the years, and the rate of growth during 1968 was quite satisfactory.

While I am speaking of consumer credit, I should say that one of the most important and far-reaching developments during the year, came to a climax on August 19th last when, in co-operation with three other Canadian banks, we launched the "Chargex" credit card plan. This marked the culmination of several years' study and research into various credit card systems both in Canada and abroad which led us to the conclusion that this type of instrument was not only rapidly gaining favour with the public but also offered a natural extension of our lending function.

Our studies further revealed that most existing card plans fall into one of two categories -- the charge card, issued by various firms for use only in their own establishments; and the travel and entertainment card which was primarily intended for use at restaurants and hotels. The nature of our operations enabled us to combine these two and add a cash advance feature, which resulted in Canada's first all-purpose card.

In planning the new service, we were conscious of our responsibility to ensure that we did not extend, through Chargex, Termplan or any other plan, an invitation to clients to become heavily involved in debt. We believe that through the use of Chargex rather than a wide variety of credit cards and charge accounts, our cardholders will be in a better position to manage and properly control their spending programs. The vast majority of cards issued carry a credit limit of $300, and the experience of other plans indicates that the average amount of credit outstanding at any one time is normally in the vicinity of $140 per active account.

I am pleased to report that the Chargex plan has already received a measure of public support well beyond our expectations, and plans are now proceeding for orderly expansion into other parts of Canada.

Before I leave the area of consumer lending, I must comment that I am considerably disturbed by the charge, sometimes heard of late, that "the banks have given up being interested in the savings business, they just want to lend you money". Let me say categorically that insofar as The Royal Bank is concerned, we are definitely interested in encouraging saving, and indeed in encouraging good money management habits generally. A number of points might be made in this connection, but I will confine myself to three:

First, to carry on our business we must have deposits, and this means savings.

Second, good money management, for individuals as well as corporations, involves the use of deposit accounts and quite often credit facilities.

Third, there is no benefit to a bank in a customer whose obligations mount to the point where he can no longer discharge them. It is not only our responsibility, but most definitely in our interest, to help our customers to manage their affairs prudently. Indeed, in some instances the best service we can render to a customer is to say "No" to a request for credit. We do just this, quite frequently.

Moreover, our loan plans are by no means limited to the much publicized consumer loans. During the year we introduced a new and progressive type of loan which we have called "Farmplan" which is designed as a single package solution for a farmer's total short and intermediate term credit needs, and great emphasis is placed upon careful and knowledgeable farm financial

management. These loans are part of a larger program designed to improve our service in the agricultural field, a program which has included the establishment of Agricultural Departments in each of the three Prairie Provinces, staffed by highly qualified officers. As in other areas, however, the branch manager is the prime contact with the public and these new departments are designed to give training and support to our branch operations in serving the agricultural community. Farmplan loans have been well received in the Prairie provinces, and our planning is for eventual extension of the complete agricultural program across the country.

One more sector of our lending business requires mention -- I refer to residential mortgages. In 1968 as in 1967, we have placed considerable emphasis upon our responsibility to do our best to assist in the solution of Canada's housing problem. I think that our record is one to be proud of, not only in terms of the number and dollar value of residential mortgage loans we have granted, but also because of our efforts to stimulate the development of a secondary mortgage market in Canada.

As many of you know, our efforts in this latter direction -- aimed at providing avenues through which institutional investment funds may "flow through" into housing include the establishment of a mortgage banking program through which we sell packages of mortgages to investors; we were also instrumental in the creation of a new company RoyMor Limited which buys mortgage packages. We propose to continue to be active in the residential mortgage banking field.

In October the bank took a leading part in the formation of a new company called International Capital Corporation Ltd., which will engage in what is generally known as merchant banking. The company expects to perform a useful service in providing equity capital and financial counsel to growing companies which have not yet reached the stage where they can obtain funds in the market place.

You will recall that last year we sketched the main lines of a planned restructuring of our organization. We said then that this arose from our determination to stress the most modern principles of management, including emphasis on management by plan, clear delegation of authority and accountability and a proper balance of functions within the organization.

The shift in organization pattern also flowed from -- and, I might say, helped to stimulate -- some careful thinking about the basic principles of our business.

Among these are a few key ones:

First, we are in a service business -- everything starts and ends with the customer.

Second, to do our work most effectively we must organize and operate so as to derive the fullest benefit from the talents of our people. This, of course, involves providing a stimulating and challenging environment and rewarding opportunities for present and future staff members.

Third, effective operation also involves the need to derive the fullest benefit from the most advanced technology available, whether this be in the form of computers or other machines, or simply the application of more sophisticated methods.

Fourth, in a rapidly changing environment, the enterprise which stands still in its ways of doing things is sure to fall behind. It is therefore our business to innovate and apply imagination and ingenuity to the task of developing new and better ways of serving customers.

I must emphasize here again that our branch people continue to be the key element in our operations, and all our efforts are directed at enhancing their effectiveness in serving our clients.

It has been said that in an industry without a product, the premium is on people. I am convinced the margin of our competitive success or failure will ultimately rest on the quality of personnel we select and then develop. There was a time — not so long ago, when over 90% of our people joined us immediately from high school but for a number of years we have been drawing increasingly on universities and the many new community colleges which are springing up throughout the country. In the last year, we have supplemented our manpower resources with a number of experienced men and women from other companies, mainly to assist with the development of computer based information systems.

It is gratifying to be able to report that we continue to receive tremendous co-operation and understanding from our staff in the implementation of our reorganization plan.

We have drawn on our personnel to fill most of the new posts created which has resulted in many promotions and new opportunities for advancement. This is particularly so in the case of women who are becoming more interested in making a career with the bank. This has permitted us to appoint our first lady branch managers and to recognize, through appointment, the capabilities of many more of the female staff members who make up almost two thirds of our total work force.

An important part of our program is the progressive widening of the application of computer technology to the handling of customers' accounts. During fiscal 1968 we opened a new computer centre in Calgary, which is enabling us to bring more speed and efficiency to the processing of cheques and other documents for our branches in Alberta.

Our Chargex credit card plan was "computerized" from the start; indeed it would have been practically impossible to get the operation underway on its present scale, without the use of such equipment.

Another area in which modern information processing technology is making an important contribution, is the provision of special services to corporate clients. We are now in a position to offer a number of services such as Payroll Processing and Account Reconciliation, and are working actively to develop other computer-based services which will help to make the benefits of electronic data processing available to smaller businesses which cannot afford to operate their own facilities.

You may remember that last year we referred briefly to our installation of an experimental "on-line" system by which entries in savings accounts are processed through computer terminals at tellers' wickets. We plan to expand the system considerably in the future, and it seems inevitable that in time we shall extend "on-line" processing of accounts to a great many branches across the country.

Apart from speed and accuracy, one particularly valuable aspect of this system is that since account records are centralized in a data centre, the customer may deal at any branch which has the requisite computer connection, just as if it were his "home" branch.

During the year we opened two small service outlets in Montreal which we call "Bankettes". Located in heavy-traffic areas within shopping centres, these offices enable us to provide purely personal banking services very efficiently, without the need for setting up full-scale branches. While these "Bankettes" have not been operating long enough for us to draw final conclusions, it seems evident that there is a place in the future for satellite outlets of this nature, which rely heavily on centralized record-keeping by computer.

Our policy with regard to the opening of regular branches during the year has been an aggressive but selective one. We opened a total of 28 full-time branches and five sub-branches in Canada and two branches outside of Canada during the fiscal year.

As we enter our 100th year it is particularly pleasant to be able to report the completion of a new 13-storey building in Halifax, the city of our birth. This building now houses the District General Manager's Department and the Main Branch.

New buildings were erected at 21 points during the year, including such widespread sites as Victoria, Fort Street, B.C., Placentia, Newfoundland, and Buenos Aires, Argentina. We have just about completed the program, launched some years ago, to provide modern premises in the major centres across Canada, and while replacement and renovation work will continue, I think we have reason to be pleased with our offices almost everywhere we are represented, in Canada and abroad.

Our business outside the country has always been very important to us. It was no accident that the first branch of this bank was established near the waterfront in Halifax, for the founders were very interested in trade, and thus in the great world beyond the borders of Canada. This international outlook has, happily, been a part of the bank ever since.

Today the role played by our International Division continues to be important, both as to its contribution to the bank's assets and earnings and in the directing of valuable business to our Canadian branches. Our experience as an International bank goes back many years. We have been established for 59 years in London, 50 years in Paris, 67 years in the Caribbean, and 53 years on the South American Continent. Our offices abroad operate under varying Governmental controls, often complex labour laws, widely divergent money market conditions and the results obtained are largely dependent upon the financial climates in the countries involved.

Since the devaluations of the pound sterling and 20 other currencies in November 1967, international financial markets have been subject to one disturbance after another. With the environment being one of instability, uncertainty and change, operating in markets upset by recurring flows of speculative money, has put heavy demands on our overseas personnel. The bank is fortunate in having such able staff to meet these demands.

Our trust companies abroad -- London, New York, and the five Caribbean offices of West Indies Trust Corporation Limited -- continue to progress at a satisfactory rate. The availability of medium to long-term funds in the Caribbean countries is quite limited and through our network of trust companies, we are playing an increasingly important part in filling this sector of our customers financing requirements.

Canada's role as a leading trading nation continues to expand and, during the past year, our bank has endeavoured to enlarge its international representation by way of imaginative and profitable expansion. In some areas, this is practical by way of additional branches and, in others, by way of associations with well established national banks. As an example, last February, we purchased an interest in Banque Belge pour l'Industrie of Brussels. This is an old and highly regarded Belgian bank and we believe that our participation is an excellent means of strengthening our banking ties within the Common Market.

You may have read in the press of our recent agreement with the Bank of America, the largest bank in the world, whereby they have joined our International group in the ownership, on an equal basis, of Banco Real do Canada, S.A. in Brazil. We are confident that this arrangement will be of great help to Banco Real in its operations, as the world-wide associations of the Bank of America will complement our own resources in a most useful way.

The activities of our New York Agency continue to form an important part of our international coverage and render valuable assistance in servicing the needs of many of our Canadian customers as well as those in other areas of the world. Our resident Representatives in Hong Kong, Chicago, Los Angeles, Dallas, and our United Kingdom and European officers also make a valuable contribution in assisting Canadian trade. They travel extensively in their respective areas as do our Head Office executive officers in order to keep abreast of conditions abroad. We must be very closely attuned to developments in many countries.

Reorganization and updating of the bank's management structure, procedures, and controls, of course, apply equally to our international division but improvements must be tailored to local conditions. Nevertheless, our objectives internationally are the same as those in Canada, namely, to increase our rate of growth on a sound and profitable basis and to develop the full capabilities of all our personnel.

To return to Canada, I would like to report that the Royal Bank Award, instituted in 1967 as one way of helping to celebrate the Canadian Centennial, continues to attract much favorable interest. As you know, the award consists of a gold medal and a cash grant of $50,000 to honour a Canadian or Canadian resident of outstanding achievement. The award is an annual one, with no restrictions as to the nature of the achievement, and with the recipient being selected by a completely independent committee of distinguished Canadians. The 1968 recipient was Dr. Chalmers Jack MacKenzie, of Ottawa, of whom it has been said: "his contributions to science marched this country into the 20th Century and brought it world recognition."

Nominations for the 1969 Award will be accepted by the Selection Committee until February 28.

We are fully cognizant of the great support we get from shareholders. We ended fiscal 1968 with 31,590 shareholders, an increase of some 1,500 over the figure a year earlier. This broadening of the ownership of the bank is highly desirable and I am happy to be able to welcome so many new shareholders.

Finally, it is traditional on these occasions for the Chief General Manager to thank and compliment the staff on their individual and collective contribution through the year. If it were not for the outstanding efforts of the many people who have staffed this bank since our beginning, we would never have reached the pre-eminent position we now enjoy. It is therefore only proper on the threshold of our centenary to pay tribute to all who have gone before, as well as our present dedicated staff. They have made the Royal Bank the respected, solid and progressive institution it is today.